

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER
EDITION



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Headlines

◆
The KTRS Defined
Benefit Group
Retirement Plan is
the Most Efficient
Way to Deliver
Retirement
Security

◆
Board Vacancy
Filled
Unanimously

◆
Upcoming KTRS
Board of Trustees
Election

◆
The Importance of
Medicare Part A

◆
Notice: Retirees
Should Not Pay
Excess Billings
When Enrolled in
the Humana
Medicare
Advantage Plan

◆
Minimum
Distribution
Requirements

◆
Do You Have a
Life Insurance
Beneficiary?

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The KTRS Defined Benefit Group Retirement Plan is the Most Efficient Way to Deliver Retirement Security

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Executive Secretary

Kentucky Teachers' Retirement System

"The envious man thinks that if his neighbor breaks his leg, he will be able to walk better himself."¹ There is universal agreement that envy is one of the darkest and most destructive of all human emotions. Unfortunately, "pension envy" has crept into the national discussion about retirement plans for public school teachers.

In some parts of the country, people are advocating eliminating traditional defined benefit group retirement plans (DB retirement plans) in favor of individual 401(k) type savings accounts (DC savings accounts). The rationale for this position is not that DC savings accounts provide better retirement security, rather it is based upon the bitter idea "if I don't have a pension then no one should have a pension." Public policy concerning retirement should be based upon reason, not resentful emotion.

My entire career has been devoted to practicing the fine points of accounting and finance. I love numbers and the straightforward stories they tell. More than thirty years of professional work on the details of retirement have led me to the conclusion that DB retirement plans provide a successful, cost

effective retirement model. To the contrary, DC savings accounts just don't make the grade — and the numbers prove it!

The National Institute on Retirement Security conducted a study making an "apples to apples" calculation of the actual dollar contributions required for a DB retirement plan and a DC savings account to achieve the same target retirement benefits.² The study found that traditional DB retirement plans provide the same retirement income at nearly half the cost of DC savings accounts.

DB retirement plans are more efficient than DC savings accounts because:

- **DB retirement plans earn higher investment returns** due to professional asset management and lower costs compared to individual DC savings accounts. Over a person's career, this accounts for about 26% less cost for a DB retirement plan.
- **DB retirement plans continually optimize their investment portfolios;** however, persons with DC savings accounts generally have to take less investment risk to protect principal as they near retirement. Over a person's

continued on page 2 ...

Board Vacancy Filled Unanimously



Mr. Charles W. Ludwig, of Louisville, Kentucky, was unanimously approved by the Board of Trustees of the Kentucky Teachers' Retirement System (KTRS) to fill the vacancy left on the Board by the resignation of former Board member, Dr. Jay Morgan. Mr. Ludwig is a

graduate of the University of Kentucky with a Bachelor of Arts Degree in Secondary Education. He received a Masters in Science in the Administration of Justice, and his Rank I, from the University of Louisville. Mr. Ludwig currently serves as a professor with the Kentucky Community and Technical College System and is assigned to the Kentucky Department of Corrections. For the past 23 years he has taught Adult Basic Education Classes at the Kentucky Correctional Institution for Women in Peewee Valley. Mr. Ludwig serves on the Board of Directors of the Kentucky Education Association, and as Treasurer for the Fifth District Education Association. He also serves on the boards of the Kentucky Community and Technical Education Association and the Kentucky Association for Adult and Continuing Education. Mr. Ludwig holds the offices of both the Secretary and Chief Financial Officer for the Commission of Adult Basic Education. The unexpired term that Mr. Ludwig is filling runs through June 30, 2013.

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two trustees are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four-year terms and the elections are staggered. This May, the membership will elect a lay member trustee and an active member trustee. The candidates for the lay position are Ronald L. Sanders, the incumbent, from Hodgenville, and John David King from Barbourville. The candidates for the active teacher position are Ruth Ann Sweazy, the incumbent, from Taylorsville, and Michael H. Ross, from Maysville.

In early May, each retired and active KTRS member was mailed a ballot with information about the candidates. Retired members will receive a yellow ballot and active members will receive a blue ballot. Please select your candidate, tear along the perforation, and drop the ballot in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2011. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next KTRS newsletter.

The KTRS Defined Benefit Group Retirement Plan is the Most Efficient Way to Deliver Retirement Security continued from page 1 ...

career, this accounts for about 5% less cost for a DB retirement plan.

- **DB retirement plans pool "longevity risk" and pay benefits for a retiree's lifetime.** In a DC savings account, the person must make excess contributions to make sure they don't run out of money if they live beyond normal life expectancy. Over a person's career, this accounts for about 15% less cost for a DB retirement plan.

In summary, the KTRS Defined Benefit Group Retirement Plan offers the very best retirement

security for much less cost than is offered by individual Defined Contribution savings accounts. The Defined Benefit Group Retirement Plan is, in short, a model to be emulated.

1 The quote is by Helmut Schoeck author of "Envy: A Theory of Social Behavior."

2 The study is titled "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans;" a "Fact Sheet" summarizing the study is available on KTRS's website at www.ktrs.ky.gov.

Retirees Age 65 & Over

The Importance of Medicare Part A

For retired teachers who are **not** enrolled in Part A of Medicare, KTRS pays your Part A claims the way Medicare normally would, excluding the MEHP deductibles and copayments. However, you could be eligible for Medicare Part A and not even know it!

Even if you did not pay Social Security or Medicare taxes as a teacher, you may still be eligible for Medicare Part A free of charge if your spouse (living or deceased, including divorced spouses) worked long enough in a job where Social Security/Medicare taxes were paid. You could be eligible for Part A free of charge even if your spouse is not eligible to draw Social Security benefits or Medicare yet (based on age or current employment status) but has paid Social Security/Medicare taxes. In the case of divorce, if you were married for at least ten (10) years to an individual who has paid into Social Security/Medicare, you may be eligible for Part A free of charge through that individual. Please note that enrolling in Part A through your spouse or ex-spouse's Medicare in no way affects their Social Security benefits or Medicare coverage.

To determine if you are eligible for Medicare Part A free of charge, please visit your local Social Security office to have them check the name, date of birth, and Social Security Number (if available) of your spouse, ex-spouse, or deceased spouse. If it is determined by Social Security that you do not currently qualify for Medicare Part A, but will at a future date, please follow up with Social Security at the appropriate time to enroll in Part A free of charge. Gaining Part A of Medicare would not change your KTRS benefits in any way, but it would save money for the KTRS Medical Insurance Fund, which is used to fund health care for retired teachers.

If you gain Medicare Part A free of charge, you should receive a new Medicare Card

showing Medicare Part A and Part B, including the effective dates. Upon receiving a new Medicare card, please forward a copy to KTRS.

NOTICE: Retirees Should Not Pay Excess Billings When Enrolled in the Humana Medicare Advantage Plan

With each doctor's visit a claim is filed with Humana and you will receive an Explanation of Benefits (EOB) from Humana that indicates your cost share of the visit. If the doctor's office bills you more than your share, known as balance billing or excess billing, do not pay the excess. You are not liable for the balance or excess that is above your cost share as indicated on your EOB. If there are any instances where you have paid the excess, contact your doctor's billing office for the appropriate refund. Also, if you have questions about your medical benefits or specific claims and your cost share, you can contact Humana at 1-866-307-2494.

WHCRA ANNUAL NOTICE

Do you know that your plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services including all stages of reconstruction and surgery to achieve symmetry between the breasts, prostheses, and complications resulting from a mastectomy, including lymphedema?

Call your Plan Administrator
at 1-866-307-2494 for more information.

Minimum Distribution Requirements

Regardless of whether you are vested with at least five (5) years of service or not, if you are no longer working for a participating KTRS employer, federal tax law requires you to take action soon after you reach age 70½ to withdraw the contributions that have been deposited in your retirement account. If you are vested with at least five (5) years of service, you are required to withdraw your contributions by filing a retirement application to start receiving your retirement allowance. If you are not vested with at least five (5) years of service, you are required to file an application for a refund of your account. Failure to take action to timely withdraw the contributions that have been deposited in your retirement account may result in federal tax penalties.

If you are age 70½ or over and no longer contributing to the retirement system, please contact KTRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties. Federal tax law also requires the beneficiary of an active or retired member to begin receiving benefits or take a refund soon after the member's death.

Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

Do You Have a Life Insurance Beneficiary?

All members of KTRS are covered by a life insurance benefit. KRS 161.655 sets this benefit at \$5,000 for retirees and \$2,000 for active contributing members. The law specifies that this benefit is payable upon the death of the member to the member's estate or to a party designated by the member on a form prescribed by the retirement system. Members who do not have a party designated to receive this benefit can do so by completing a Designation of Beneficiary Form [KTRS Life Insurance Form DB-1].

KTRS retirees are reminded that changing the life insurance benefit designation does not affect the beneficiary designation made at retirement that provides for a monthly payment to a survivor in the event of death of the retired member. It is very important that both active and retired KTRS members keep their life insurance beneficiary designation current and up to date. Failure to keep your beneficiary designation up to date could lead to costly legal fees. To request this form call KTRS toll free at 1-800-618-1687.